

## FX Daily: Another Brexit deadline breached

Optimism on Brexit negotiations and hopes for a US fiscal stimulus package are keeping risk assets supported and the dollar on the backfoot



British Prime Minister Boris Johnson (R) and European Commission President Ursula von der Leyen meeting earlier this year

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### 📉 USD: Stimulus and Brexit the main drivers

The dollar is starting the week on the backfoot as risk appetite remains fairly upbeat on the back of vaccine rollout news, lingering hopes around a US fiscal stimulus package and some optimism on Brexit negotiations. On the stimulus front, markets will be on the lookout for comments by Secretary Steven Mnuchin and House Leader Nancy Pelosi today. The details of the bipartisan US\$908 billion proposal will also be unveiled today, although the package is set to struggle to get congressional approval. Brexit-related news will remain the other key driver for the dollar and since we are still inclined to think a deal can be reached, we don't see much room for an inversion of the USD bear-trend soon, also considering that: (1) the Fed should reiterate its firmly dovish stance on Wednesday; and (2) a US government shutdown should be averted by Congress considering the emergency situation. The US calendar is empty today.

## ⬆️ EUR: External factors dominate

In a week with a very quiet data calendar in the eurozone and having passed the two key risk events last week (EU budget approval and European Central Bank meeting), the EUR is set to stay primarily driven by external factors, in particular Brexit negotiations. Even if we don't get a final word on a Brexit deal this week, some additional USD should keep supporting EUR/USD into the 1.22 area.

## ⬆️ GBP: Will negotiations drag on until Christmas?

Another deadline for a UK-EU trade deal was breached yesterday as Boris Johnson and Ursula von der Leyen agreed to extend negotiations, but without setting a new deadline. A report by the Financial Times suggested that negotiations may drag on until Christmas, citing some UK officials. Sterling got a boost in early trading on the back of the news, but it looks clear that differences persist on some core issues, with the level playing field remaining the key sticking point. Despite being a very close call at this stage, we still think a deal is the most likely scenario and therefore expect a GBP rally to materialise in the next two weeks. Still, the currency reaction function is asymmetrically skewed to the downside as, despite last week's drop, GBP is still pricing in a good probability of a deal. Unless we get a final word on the trade deal by Thursday, the Bank of England may well keep its policy stance unchanged while awaiting further Brexit developments.

## ⬆️ AUD: Iron ore and external factors overshadow RBA minutes

Iron ore prices are facing some correction this morning after yet another strong and volatile week on the back of supply concerns and China's resilient demand. AUD's recent outperformance vs other procyclicals was helped by the iron ore rally and a potential broader correction (we don't see current iron ore levels as sustainable) remains the key risk to AUD's strong momentum along with external factors such as Brexit. The Reserve Bank of Australia minutes from the quite uneventful December policy meeting (released tonight) will likely play second fiddle.

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